FELIPE O. MAGBANUA, CARLOS DE LA CRUZ, REMY ARNAIZ, BILLY ARNAIZ, ROLLY ARNAIZ, DOMINGO SALARDA, JULIO CAHILIG AND NICANOR LABUEN, PETITIONERS, VS. RIZALINO UY, RESPONDENT.

G.R. NO. 161003. May 06, 2005

Ponente: PANGANIBAN, J.

Read online (full-text search, related cases, audio case brief): https://batas.org/library/g-r-no-161003/

PANGANIBAN, J.:

Rights may be waived through a compromise agreement, notwithstanding a final judgment that has already settled the rights of the contracting parties. To be binding, the compromise must be shown to have been voluntarily, freely and intelligently executed by the parties, who had full knowledge of the judgment. Furthermore, it must not be contrary to law, morals, good customs and public policy.

The Case

Before us is a Petition for Review[1] under Rule 45 of the Rules of Court, assailing the May 31, 2000 Decision[2] and the October 30, 2003 Resolution[3] of the Court of Appeals (CA) in CA-GR SP No. 53581. The challenged Decision disposed as follows:

> "WHEREFORE, having found that public respondent NLRC committed grave abuse of discretion, the Court hereby SETS ASIDE the two assailed Resolutions and REINSTATES the order of the Labor Arbiter dated February 27, 1998."[4]

The assailed Resolution denied reconsideration.

The Facts

The CA relates the facts in this wise:

> "As a final consequence of the final and executory decision of the Supreme Court in Rizalino P. Uy v. National Labor Relations Commission, et. al. (GR No. 117983, September 6, 1996) which affirmed with modification the decision of the NLRC in NLRC Case No. V-0427-93, hearings were conducted [in the National Labor Relations Commission Sub-Regional Arbitration Branch in Iloilo City] to determine the amount of wage differentials due the eight (8) complainants therein, now [petitioners]. As computed, the award amounted to P1,487,312.69 x x x.
>
> "On February 3, 1997, [petitioners] filed a Motion for Issuance of Writ of Execution.
>
> "On May 19, 1997, [respondent] Rizalino Uy filed a Manifestation requesting that the cases be terminated and closed, stating that the judgment award as computed had been complied with to the satisfaction of [petitioners]. Said Manifestation was also signed by the eight (8) [petitioners]. Together with the Manifestation is a Joint Affidavit dated May 5, 1997 of [petitioners], attesting to the receipt of payment from [respondent] and waiving all other benefits due them in connection with their complaint.
>
> x x x x x x x x x

> "On June 3, 1997, [petitioners] filed an Urgent Motion for Issuance of Writ of Execution wherein they confirmed that each of them received P40,000 from [respondent] on May 2, 1997.
>
> "On June 9, 1997, [respondent] opposed the motion on the ground that the judgment award had been fully satisfied. In their Reply, [petitioners] claimed that they received only partial payments of the judgment award.
>
> x x x x x x x x x
>
> "On October 20, 1997, six (6) of the eight (8) [petitioners] filed a Manifestation requesting that the cases be considered closed and terminated as they are already satisfied of what they have received (a total of P320,000) from [respondent]. Together with said Manifestation is a Joint Affidavit in the local dialect, dated October 20, 1997, of the six (6) [petitioners] attesting that they have no more collectible amount from [respondent] and if there is any, they are abandoning and waiving the same.
>
> "On February 27, 1998, the Labor Arbiter issued an order denying the motion for issuance of writ of execution and [considered] the cases closed and terminated x x x.
>
> "On appeal, the [National Labor Relations Commission (hereinafter "NLRC")] reversed the Labor Arbiter and directed the immediate issuance of a writ of execution, holding that a final and executory judgment can no longer be altered and that quitclaims and releases are normally frowned upon as contrary to public policy."[5]

Ruling of the Court of Appeals

The CA held that compromise agreements may be entered into even after a final judgment.[6] Thus, petitioners validly released respondent from any claims, upon the voluntary execution of a waiver pursuant to the compromise agreement.[7]

The appellate court denied petitioners' motion for reconsideration for having been filed out of time.[8]

Hence, this Petition.[9]

The Issues

Petitioners raise the following issues for our consideration:

> "1. Whether or not the final and executory judgment of the Supreme Court could be subject to compromise settlement;
>
> "2. Whether or not the petitioners' affidavit waiving their awards in [the] labor case executed without the assistance of their counsel and labor arbiter is valid;
>
> "3. Whether or not the ignorance of the jurisprudence by the Court of Appeals and its erroneous counting of the period to file [a] motion for reconsideration constitute a denial of the petitioners' right to due process."[10]

The Court's Ruling

The Petition has no merit.

First Issue:Validity of the Compromise Agreement

A compromise agreement is a contract whereby the parties make reciprocal concessions in order to resolve their differences and thus avoid or put an end to a lawsuit.[11] They adjust their difficulties in the manner they have agreed upon, disregarding the possible gain in litigation and keeping in mind that such gain is balanced by the danger of losing.[12] Verily, the compromise may be either extrajudicial (to prevent litigation) or judicial (to end a litigation).[13]

Bar review courses, mock exams and a study planner that keeps you on pace - batas.org

A compromise must not be contrary to law, morals, good customs and public policy; and must have been freely and intelligently executed by and between the parties.[14] To have the force of law between the parties,[15] it must comply with the requisites and principles of contracts.[16] Upon the parties, it has the effect and the authority of res judicata, once entered into.[17]

When a compromise agreement is given judicial approval, it becomes more than a contract binding upon the parties. Having been sanctioned by the court, it is entered as a determination of a controversy and has the force and effect of a judgment.[18] It is immediately executory and not appealable, except for vices of consent or forgery.[19] The nonfulfillment of its terms and conditions justifies the issuance of a writ of execution; in such an instance, execution becomes a ministerial duty of the court.[20]

Following these basic principles, apparently unnecessary is a compromise agreement after final judgment has been entered. Indeed, once the case is terminated by final judgment, the rights of the parties are settled. There are no more disputes that can be compromised.

Compromise Agreementsafter Final Judgment

The Court is tasked, however, to determine the legality of a compromise agreement after final judgment, not the prudence of entering into one. Petitioners vehemently argue that a compromise of a final judgment is invalid under Article 2040 of the Civil Code, which we quote:[21]

> "Art. 2040. If after a litigation has been decided by a final judgment, a compromise should be agreed upon, either or both parties being unaware of the existence of the final judgment, the compromise may be rescinded.
>
> "Ignorance of a judgment which may be revoked or set aside is not a valid ground for attacking a compromise." (Bold types supplied)

The first paragraph of Article 2040 refers to a scenario in which either or both of the parties are unaware of a court's final judgment at the time they agree on a compromise. In this case, the law allows either of them to rescind the compromise agreement. It is evident from the quoted paragraph that such an agreement is not prohibited or void or voidable. Instead, a remedy to impugn the contract, which is an action for rescission, is declared available.[22] The law allows a party to rescind a compromise agreement, because it could have been entered into in ignorance of the fact that there was already a final judgment. Knowledge of a decision's finality may affect the resolve to enter into a compromise agreement.

The second paragraph, though irrelevant to the present case, refers to the instance when the court's decision is still appealable or otherwise subject to modification. Under this paragraph, ignorance of the decision is not a ground to rescind a compromise agreement, because the parties are still unsure of the final outcome of the case at this time.

Petitioners' argument, therefore, fails to convince. Article 2040 of the Civil Code does not refer to the validity of a compromise agreement entered into after final judgment. Moreover, an important requisite, which is lack of knowledge of the final judgment, is wanting in the present case.

Supported by Case Law

The issue involving the validity of a compromise agreement notwithstanding a final judgment is not novel. Jesalva v. Bautista[23] upheld a compromise agreement that covered cases pending trial, on appeal, and with final judgment.[24] The Court noted that Article 2040 impliedly allowed such agreements; there was no limitation as to when these should be entered into.[25] Palanca v. Court of Industrial Relations[26] sustained a compromise agreement, notwithstanding a final judgment in which only the amount of back wages was left to be determined. The Court found no evidence of fraud or of any showing that the agreement was contrary to law, morals, good

customs, public order, or public policy.[27]

Gatchalian v. Arlegui[28] upheld the right to compromise prior to the execution of a final judgment. The Court ruled that the final judgment had been novated and superseded by a compromise agreement.[29] Also, Northern Lines, Inc. v. Court of Tax Appeals[30] recognized the right to compromise final and executory judgments, as long as such right was exercised by the proper party litigants.[31]

Rovero v. Amparo,[32] which petitioners cited, did not set any precedent that all compromise agreements after final judgment were invalid. In that case, the customs commissioner imposed a fine on an importer, based on the appraised value of the goods illegally brought to the country. The latter's appeal, which eventually reached this Court, was denied. Despite a final judgment, the customs commissioner still reappraised the value of the goods and effectively reduced the amount of fine. Holding that he had no authority to compromise a final judgment, the Court explained:

> "It is argued that the parties to a case may enter into a compromise about even a final judgment rendered by a court, and it is contended x x x that the reappraisal ordered by the Commissioner of Customs and sanctioned by the Department of Finance was authorized by Section 1369 of the [Revised Administrative Code]. The contention may be correct as regards private parties who are the owners of the property subject-matter of the litigation, and who are therefore free to do with what they own or what is awarded to them, as they please, even to the extent of renouncing the award, or condoning the obligation imposed by the judgment on the adverse party. Not so, however, in the present case. Here, the Commissioner of Customs is not a private party and is not the owner of the money involved in the fine based on the original appraisal. He is a mere agent of the Government and acts as a trustee of the money or property in his hands or coming thereto by virtue of a favorable judgment. Unless expressly authorized by his principal or by law, he is not authorized to accept anything different from or anything less than what is adjudicated in favor of the Government."[33] (Bold types supplied)

Compliance with theRule on Contracts

There is no justification to disallow a compromise agreement, solely because it was entered into after final judgment. The validity of the agreement is determined by compliance with the requisites and principles of contracts, not by when it was entered into. As provided by the law on contracts, a valid compromise must have the following elements: (1) the consent of the parties to the compromise, (2) an object certain that is the subject matter of the compromise, and (3) the cause of the obligation that is established.[34]

In the present factual milieu, compliance with the elements of a valid contract is not in issue. Petitioners do not challenge the factual finding that they entered into a compromise agreement with respondent. There are no allegations of vitiated consent. Neither was there any proof that the agreement was defective or could be characterized as rescissible,[35] voidable,[36] unenforceable,[37] or void.[38] Instead, petitioners base their argument on the sole fact that the agreement was executed despite a final judgment, which the Court had previously ruled to be allowed by law.

Petitioners voluntarily entered into the compromise agreement, as shown by the following facts: (1) they signed respondent's Manifestation (filed with the labor arbiter) that the judgment award had been satisfied;[39] (2) they executed a Joint Affidavit dated May 5, 1997, attesting to the receipt of payment and the waiver of all other benefits due them;[40] and (3) 6 of the 8 petitioners filed a Manifestation with the labor arbiter on October 20, 1997, requesting that the cases be terminated because of their receipt of payment in full satisfaction of their claims.[41] These circumstances also reveal that respondent has already complied with its obligation pursuant to the compromise agreement. Having already benefited from the agreement, estoppel bars petitioners from challenging it.

Advantages of Compromise

A reciprocal concession inherent in a compromise agreement assures benefits for the contracting parties. For the defeated litigant, obvious is the advantage of a compromise after final judgment. Liability arising from the judgment may be reduced. As to the prevailing party, a compromise agreement assures receipt of payment. Litigants are sometimes deprived of their winnings because of unscrupulous mechanisms meant to delay or evade the execution of a final judgment.

The advantages of a compromise agreement appear to be recognized by the NLRC in its Rules of Procedure. As part of the proceedings in executing a final judgment, litigants are required to attend a pre-execution conference to thresh out matters relevant to the execution.[42] In the conference, any agreement that would settle the final judgment in a particular manner is necessarily a compromise.

Novation of an Obligation

The principle of novation supports the validity of a compromise after final judgment. Novation, a mode of extinguishing an obligation,[43] is done by changing the object or principal condition of an obligation, substituting the person of the debtor, or surrogating a third person in the exercise of the rights of the creditor.[44]

For an obligation to be extinguished by another, the law requires either of these two conditions: (1) the substitution is unequivocally declared, or (2) the old and the new obligations are incompatible on every point.[45] A compromise of a final judgment operates as a novation of the judgment obligation, upon compliance with either requisite.[46] In the present case, the incompatibility of the final judgment with the compromise agreement is evident, because the latter was precisely entered into to supersede the former.

Second Issue:Validity of the Waiver

Having ruled on the validity of the compromise agreement in the present suit, the Court now turns its attention to the waiver of claims or quitclaim executed by petitioners. The subject waiver was their concession when they entered into the agreement. They allege, however, that the absence of their counsel and the labor arbiter when they executed the waiver invalidates the document.

Not Determinativeof the Waiver's Validity

The presence or the absence of counsel when a waiver is executed does not determine its validity. There is no law requiring the presence of a counsel to validate a waiver. The test is whether it was executed voluntarily, freely and intelligently; and whether the consideration for it was credible and reasonable.[47] Where there is clear proof that a waiver was wangled from an unsuspecting or a gullible person, the law must step in to annul such transaction.[48] In the present case, petitioners failed to present any evidence to show that their consent had been vitiated.

The law is silent with regard to the procedure for approving a waiver after a case has been terminated.[49] Relevant, however, is this reference to the NLRC's New Rules of Procedure:

> "Should the parties arrive at any agreement as to the whole or any part of the dispute, the same shall be reduced to writing and signed by the parties and their respective counsel, or authorized representative, if any,[50] before the Labor Arbiter.
>
> "The settlement shall be approved by the Labor Arbiter after being satisfied that it was voluntarily entered into by the parties and after having explained to them the terms and consequences thereof.
>
> "A compromise agreement entered into by the parties not in the presence of the Labor Arbiter before whom the case is pending shall be approved by him, if after confronting the parties, particularly the complainants, he is

Bar review courses, mock exams and a study planner that keeps you on pace - batas.org

> satisfied that they understand the terms and conditions of the settlement and that it was entered into freely and voluntarily by them and the agreement is not contrary to law, morals, and public policy."[51]

This provision refers to proceedings in a mandatory/conciliation conference during the initial stage of the litigation. Such provision should be made applicable to the proceedings in the pre-execution conference, for which the procedure for approving a waiver after final judgment is not stated. There is no reason to make a distinction between the proceedings in mandatory/conciliation and those in pre-execution conferences.

The labor arbiter's absence when the waivers were executed was remedied upon compliance with the above procedure. The Court observes that the arbiter made searching questions during the pre-execution conference to ascertain whether petitioners had voluntarily and freely executed the waivers.[52] Likewise, there was evidence that they made an intelligent choice, considering that the contents of the written waivers had been explained to them.[53] The labor arbiter's absence when those waivers were executed does not, therefore, invalidate them.

The Court declines to rule on the allegation that respondent's counsels encroached upon the professional employment of petitioners' lawyer when they facilitated the waivers.[54] The present action is not the proper forum in which to raise any charge of professional misconduct. More important, petitioners failed to present any supporting evidence.

The third issue, which refers to the timely filing of petitioners' Motion for Reconsideration filed with the CA, will no longer be discussed because this Court's decision has resolved the case on the merits.

WHEREFORE, the Petition is DENIED and the assailed Decision AFFIRMED. Costs against petitioners.

SO ORDERED.

Sandoval-Gutierrez, Corona, Carpio-Morales, and Garcia, JJ., concur.

---

[1] Rollo, pp. 3-14.

[2] Id., pp. 16-28. Special Fifteenth Division. Penned by Justice Ruben T. Reyes (Division chair), with the concurrence of Justices Andres B. Reyes Jr. and Jose L. Sabio Jr. (members).

[3] Id., p. 71.

[4] Id., p. 27.

[5] Assailed Decision, pp. 2-6; rollo, pp. 17-21.

[6] Id., pp. 8 & 23.

[7] Id., pp. 9 & 24.

[8] Assailed Resolution; rollo, p. 71.

[9] The case was deemed submitted for decision on October 5, 2004, upon this Court's receipt of petitioners' Memorandum, signed by Atty. Mariano R. Pefianco. Respondent's Memorandum, signed by Attys. Nicolas P. Lapeña Jr. and Gilbert F. Ordoña, was received by this Court on September 8, 2004.

[10] Petitioners' Memorandum, p. 4; rollo, p. 121.

[11] Art. 2028, Civil Code; Manila International Airport Authority v. ALA Industries Corporation, 422 SCRA 603, 609, February 13, 2004; Ramnani v. Court of Appeals, 413 Phil. 194, 207, July 10, 2001; Abarintos v. Court

of Appeals, 374 Phil. 157, 168, September 30, 1999; Del Rosario v. Madayag, 317 Phil. 883, 887, August 28, 1995.

[12] Armed Forces of the Philippines Mutual Benefit Association, Inc. v. Court of Appeals, 311 SCRA 143, 154, July 26, 1999.

[13] Armed Forces of the Philippines Mutual Benefit Association, Inc. v. Court of Appeals, supra; Abinujar v. Court of Appeals, 313 Phil. 407, 413, April 18, 1995.

[14] The Learning Child, Inc. v. Lazaro, 340 SCRA 72, 75, September 7, 2000; Calla v. Maglalang, 382 Phil. 138, 143, February 9, 2000; Salazar v. Jarabe, 91 Phil. 596, 601, July 11, 1952.

[15] Golden Donuts, Inc. v. National Labor Relations Commission, 379 Phil. 303, 314, January 19, 2000.

[16] See Regal Films, Inc. v. Concepcion, 414 Phil. 807, 813, August 9, 2001; Anacleto v. Van Twest, 393 Phil. 616, 624, August 29, 2000; Del Rosario v. Madayag, supra.

[17] Art. 2037, Civil Code; Cebu International Finance Corporation v. Court of Appeals, 374 Phil. 844, 858, October 12, 1999; Del Rosario v. Madayag, supra.

[18] Velasquez v. Court of Appeals, 426 SCRA 309, 316, March 25, 2004; Manila International Airport Authority v. ALA Industries Corporation, supra.; Golden Donuts, Inc. v. National Labor Relations Commission, supra; Abarintos v. Court of Appeals, supra.

[19] Art. 2038; San Antonio v. Court of Appeals, 371 SCRA 536, 543, December 7, 2001; Thermphil, Inc. v. Court of Appeals, 421 Phil. 589, 596, November 20, 2001; Salvador v. Ortoll, 343 SCRA 658, 668, October 18, 2000; Santos v. Dames, 345 Phil. 242, 247, October 2, 1997.

[20] Manila International Airport Authority v. ALA Industries Corporation, supra; Abinujar v. Court of Appeals, supra.

[21] Petitioners' Memorandum, p. 5; rollo, p. 122.

[22] City of Zamboanga v. Mandi, 196 SCRA 498, 502, April 30, 1991.

[23] 105 Phil. 348, March 24, 1959.

[24] Id., p. 351.

[25] Id., p. 351.

[26] 150-C Phil. 354, November 24, 1972.

[27] Id., p. 359.

[28] 75 SCRA 234, February 17, 1977.

[29] Id., p. 241.

[30] 163 SCRA 25, June 29, 1988.

[31] Id., p. 30.

[32] 91 Phil. 228, May 5, 1952.

[33] Id., p. 234, per Montemayor, J.

[34] Art. 1318, Civil Code.

[35] Art. 1381, Civil Code.

[36] Art. 1390, Civil Code.

[37] Art. 1403, Civil Code.

[38] Art. 1409, Civil Code.

[39] Assailed Decision, p. 3; rollo, p. 18.

[40] Ibid.

[41] Id., pp. 5 & 20. In their Joint Affidavit written in their local dialect, the six petitioners attested to the truth of all the allegations in their Joint Affidavit dated May 5, 1997 (id., pp. 9 & 24).

[42] §1, Rule VIII (Execution Proceedings), New Rules of Procedure of the NLRC, enacted February 12, 2002.

[43] Arts. 1157 & 1231, Civil Code.

[44] Art. 1291.

[45] Art. 1292.

[46] See Dormitorio v. Fernandez, 72 SCRA 388, 393, August 21, 1976; Lu v. Yap, 74 Phil. 287, July 30, 1943. In these cases, the Court specifically found an animus novandi or intent to substitute an obligation that arose from a final judgment.

[47] Art. 2038, Civil Code; Agustilo v. Court of Appeals, 417 Phil. 218, 234, September 7, 2001; AG&P United Rank & File Association v. National Labor Relations Commission, 332 Phil. 937, 947, November 29, 1996; Sicangco v. National Labor Relations Commission, 235 SCRA 96, 101, August 4, 1994; Periquet v. National Labor Relations Commission, 186 SCRA 724, 730, June 22, 1990.

[48] Alcosero v. National Labor Relations Commission, 351 Phil. 368, 383, March 26, 1998; AG&P United Rank & File Association v. National Labor Relations Commission, supra; Sicangco v. National Labor Relations Commission, supra; Periquet v. National Labor Relations Commission, supra, p. 731.

"Dire necessity" may be an acceptable ground to annul quitclaims if the consideration is unconscionably low and the employee was tricked into accepting it. Veloso v. Department of Labor and Employment, 200 SCRA 201, 205, August 5, 1991.

[49] See Loyola Security & Detective Agency v. National Labor Relations Commission, 313 Phil. 750, 754, May 9, 1995.

[50] It is apparent from the provision that the signatures of counsels and authorized representatives would not be required if they are not present at the time the agreements are made.

[51] §2, Rule V (Proceedings Before Labor Arbiters), New Rules of Procedure of the NLRC.

[52] Assailed Decision, pp. 10-11; rollo, pp. 25-26.

[53] Id., pp. 12 & 27.

[54] Petitioners' Memorandum, p. 6; rollo, p. 123.

Bar review courses, mock exams and a study planner that keeps you on pace - batas.org

ABOUT BATAS.ORG

Study smarter at BATAS.org

The Philippine bar review and law-school companion built around how your brain actually remembers.

The complete Philippine law library - free for everyone.

More than 100,000 Supreme Court decisions, Republic Acts, and executive issuances - full-text searchable, browsable by category and year, and always free. No paywall, no login. This PDF came from it.

Audio case-brief lectures.

Any decision becomes a podcast-style lecture - facts, issues, ruling, and doctrine - with read-along highlighting and a hands-free presentation mode. Study while commuting, working out, or resting your eyes.

Bar review built on the science of memory.

Complete, sequenced courses for all eight bar subjects, narrated like podcasts and reinforced with retrieval practice and spaced review - the study techniques with the strongest evidence behind them.

The full law-school curriculum.

One subscription unlocks the entire J.D. curriculum - every subject, every lesson, with your progress tracked down to the paragraph so you can pick up exactly where you left off, on any device.

Mock exams that tell you where you stand.

Timed multiple-choice exams graded instantly, with per-subject score breakdowns and focus suggestions that point you at your weakest topics first.

A study planner that keeps you on pace.

Set your schedule and BATAS tells you every day whether you are on track for bar day - and exactly which lesson to take next.

Start free at https://batas.org

The law library is free forever - and your first lesson is one click away.

The text of this document is an official public record and remains in the public domain. Formatting, presentation, and compilation © 2026 batas.org.

Downloaded free from the batas.org Law Library. Share it freely - the library is free for every law student, bar reviewee, and practitioner.